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## THE GROWTH OF STATE BANKS AND TRUST COMPANIES<sup>1</sup>

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One of the most remarkable features of the development of American banking during the past thirty years has been the rapid growth of state banks and trust companies. On May 31, 1882, the last date prior to April 28, 1909,<sup>2</sup> for which complete statistics of the banking institutions of the United States were collected, the number of state banks and trust companies together was less than one-half of the number of national banks, while on April 28, 1909, the number of state banks and trust companies was nearly double the number of national banks. The resources of the two classes of banking institutions have undergone a similar but less marked change in relative amount. On May 31, 1882, the capital of the state banks and trust companies was \$116,790,000, and their deposits, in round numbers, \$450,000,000, approximately one-fourth of the capital and two-fifths of the deposits of the national banks at the same date, while on April 28, 1909, the capital of the state banks and trust companies was nearly seven-eighths of that of the national banks, and their deposits were somewhat greater.

Even if we separate the state banks and the trust companies, it appears that each class has had a remarkable growth as compared with that of the national banks. State banks and trust companies are not separated in the statistics compiled by the Comptroller of the Currency from the returns made in 1882 by banking institutions to the Commissioner of Internal Revenue. In the same year, however, the Comptroller of the Currency received reports of thirty-

<sup>1</sup>This paper is based on material collected by the writer for the National Monetary Commission, and which will be published more in detail in the publications of the Commission.

<sup>2</sup>The statistics concerning state banks, trust companies and private banks for May 31, 1882, were collected under an act of Congress imposing a tax on the capital and deposits of banks. This law was repealed on March 3, 1883. The statistics for April 28, 1909 were gathered for the National Monetary Commission by the Comptroller of the Currency and the state bank supervisors.

four trust companies with a capital of \$22,800,000 and deposits of \$165,400,000.

#### STATE BANKS AND TRUST COMPANIES

	Number.	Capital (in Millions).	Deposits (in Millions).
May 31, 1882, State banks and trust companies.....	1,012	116.79	452
April 28, 1909, State banks ...	11,319	416.06	2,392
April 28, 1909, Trust companies	1,079	362.76	2,812

#### NATIONAL BANKS

	Number.	Capital (in Millions).	Deposits (in Millions).
July 1, 1882 .....	2,239	477.2	1,131.7
April 28, 1909 .....	6,893	933.9	4,636.47

There is reason to believe that these reports covered practically all the trust companies then engaged in business. The number of state banks in operation in 1882 may therefore be put at 978 with a capital of \$94,000,000 and deposits of \$286,000,000. On April 28, 1909, there reported to the National Monetary Commission 11,319 state banks with a capital of \$416,000,000 and deposits of \$2,400,000,000—an increase since 1882 in number of some 10,400 banks, in capital of \$320,000,000, and in deposits of \$2,100,000,000. During the same period the increase of national banks in number was 4,654, in capital, \$460,000,000, and in deposits, \$3,500,000,000. It will be noted that the increase of the state banks in number was more than double that of the national banks, but the increase in capital and in deposits was only about two-thirds of that of the national banks. In all three respects, however, the percentage of increase was much greater for the state banks.

#### INCREASE FROM 1882 TO 1909

	State Banks.	Trust Companies.	National Banks.
Number .....	10,341	1,045	4,654
Capital .....	\$322,000,000	\$340,000,000	\$456,000,000
Deposits .....	2,114,000,000	2,647,000,000	3,505,000,000

The increase of the trust companies from 1882 to 1909 in number was 1,045, in capital, \$340,000,000, and in deposits, \$2,647,000,000. The increase of the trust companies in all three respects was less than that of the national banks, but in capital and deposits it was approximately three-fourths of that of the national banks.

The percentage of increase was enormously greater in all items than that of the national banks.

Both for the state banks and the trust companies, this increase has been by no means equally distributed over the whole period since 1882. The number of state banks showed little increase until 1886. From 1,207 in that year, it rose until in 1893 it amounted to 3,700. From 1893 until 1898, the increase was very small, the number standing at 4,062 in 1898. The period from 1898 to 1909 was marked by a prodigious increase in the number of state banks. From 4,062 in 1898 the number rose by 1909 to 11,319—an increase of over 7,000 banks and of 179 per cent. The capital of the 3,965 state banks—ninety-eight per cent of the total number in operation—whose reports were compiled by the Comptroller of the Currency in 1898 was \$233,600,000, and their deposits were \$900,000,000; while in 1909 the capital of the 11,319 state banks, whose reports were compiled by the National Monetary Commission, as has been noted above, was \$416,000,000, and their deposits \$2,392,000,000—an increase in capital of seventy-eight per cent, and in deposits of 166 per cent.

## INCREASE FROM 1898 TO 1909.

	STATE BANKS.		TRUST COMPANIES.		NATIONAL BANKS.	
	Absolute Increase.	Percentage of Increase.	Absolute Increase.	Percentage of Increase.	Absolute Increase.	Percentage of Increase.
Number .....	7,257	179	679	170	3,299	92
Capital .....	\$182,400,000	78	\$202,000,000	126	\$304,000,000	48
Deposits .....	1,492,000,000	166	1,700,000,000	155	2,636,000,000	132

The period from 1898 to 1909 was also, without question, the period of greatest increase in the number and resources of the trust companies. The statistics of the trust companies cannot, however, be exactly ascertained for 1898. In that year, according to the report of the Comptroller of the Currency, there were 246 trust companies, with a capital of \$101,000,000 and with deposits exclusive of bankers' deposits, of \$662,000,000. The reports of trust companies in the Comptroller's report for 1898 were, however, incomplete, and it may be estimated from the unofficial reports in the bankers' directories that the number of trust companies was

about 400, and that their capital was \$160,000,000, and their deposits \$1,100,000,000. According to the reports made to the National Monetary Commission, on April 28, 1909, nearly 1,100 trust companies were actively engaged in business and, as has been noted above, these trust companies had a capital of \$362,000,000, and deposits of \$2,800,000,000, an increase of 170 per cent in number, 126 per cent in capital, and 155 per cent in deposits.

The national banks experienced also a rapid increase both in number and in resources during the same period. On February 18, 1898, the number of national banks was 3,594, with capital of \$629,000,000, and deposits, exclusive of bankers' deposits, of \$2,000,000,000. On April 28, 1909, the number of national banks was 6,893, with capital of \$933,000,000, and deposits, exclusive of bankers' deposits, of \$4,636,000,000, an increase in number of ninety-two per cent, in capital of forty-eight per cent, and in deposits of 132 per cent. It will be noted that in none of these respects was the rate of increase as great as in that for the state banks or the trust companies.

In considering the causes of the remarkable growth of state banks and trust companies outlined above, it will be desirable to consider separately the two classes of banking institutions, although, as will be pointed out in detail later, the state banks and trust companies are in certain important respects practically a single class.

*State Banks.*—Since private and national banks as well as state banks are banks of discount and deposit, the disproportionate increase of state banks noted above must be explained by their superior advantages over one or both of the classes competing with them. It must be noted, however, that the national and private banks have almost exclusive fields of operation, for very few private banks have a capital sufficiently large to enable them to organize under the national bank act.<sup>3</sup> The state bank, on the contrary, is a rival of both the private and the national bank, since the amount of capital required in most of the states to incorporate

<sup>3</sup>The 1,497 private banks which reported to the National Monetary Commission on April 28, 1909, had a capital of \$27,000,000, or an average capital of \$18,036. Of the 385 private banks, whose capital for the year 1909 is reported in the official state reports, 232 had a capital of less than \$15,000 and only 72 had a capital of as much as \$25,000. Until the passage of the act of March 14, 1900 the smallest permissible capital for a national bank was \$50,000, and since then it has been \$25,000.

a bank under the state banking laws is small enough to make it possible for private banks to become incorporated if they desire to do so. The causes which have led to the increase of state banks may, therefore, be divided into two categories according as they have been influential in giving the state bank an advantage over the private or over the national bank.

Private banks fulfil in the American banking system two distinct functions,—first, as an adjunct of the brokerage business in the large cities, and second, as a means of furnishing credit in small communities chiefly in agricultural sections. It is in the latter of these capacities that the small state banks compete with the private banks.

The number of private banks increased very rapidly from 1877, the earliest date for which complete data are accessible, to 1888. In 1877 there were 2,432 private banks in the United States and by 1888 the number had increased to 4,064. Since 1888 the increase in the number of private banks has been very small. In 1909 only 4,407 such banks were reported by the bankers' directories. This check to the increase in the number of private banks has come about despite the constant increase in the number of brokers' banks. If the number of private banks in the states of New York, Massachusetts, Pennsylvania and Illinois, in which the great mass of private banks are brokers' banks, are deducted from the total number of private banks the remaining number is less in 1909 than it was in 1888. It appears probable that the number of private banks in the United States apart from the brokers' banks is not at the present time more than one-half of the number in 1888.

During the same period, the number of small state banks has increased with great rapidity. In 1888 the number of state banks with less than \$50,000 capital was 747, while in 1909 the number of state banks with a capital of less than \$50,000 was 8,980, and the number of state banks with a capital of less than \$25,000 was 5,878. Approximately one-half of the state banks in operation in 1909 had a smaller capital than that required for the organization of a bank under the national bank act.

This rapid increase in the number of small state banks is to be explained partly by the fact that depositors prefer to deal with incorporated banks. The development of the state banking laws since 1888 has given the state bank in most of the states superior

credit to that possessed by the private banks. In a few states, the lowering of the amount of capital required for the incorporation of state banks has been responsible for the greater relative growth of small state banks.

Another factor of importance in the displacement of the private bank by the small state bank has been the increasing number of laws regulating in one way or another the conduct of business by private banks. These provisions vary widely in the different states. In some private banks are forbidden to use a corporate name. In others they are required to use on their signs and advertising matter the words "private" or "unincorporated." In a third group of states, private banks may not use the word "bank" on their signs or advertisements. In a fourth group, an attempt has been made to subject the private bank to the same supervision and regulation as the state bank. This attempt has not on the whole met with great success. The essential feature in the regulation of banks, both under the national bank act and under the state banking laws, is the requirement that banks shall have a specified minimum capital. This capital is regarded as a buffer between the losses which the bank may suffer and the deposits of the bank. In a number of states private banks are required at present to have a capital stock, but this provision does not yield satisfactory results, since the banker may engage in other enterprises, and may thus incur an indebtedness which may fall upon the assets of the bank. In a few states an attempt has been made to meet this difficulty by providing that the depositors of the bank shall have a first lien on the assets in case of the insolvency of the owner. A half dozen states have gone even further and have prohibited individuals from carrying on the business of banking. The result of these provisions, taken as a whole, has been to induce or compel many persons about to engage in the business of banking to incorporate under the state banking laws rather than to engage in the business as an individual or as a firm.

Apparently the development of state banking regulation has given a great stimulus to the growth of small banks. The period from 1899 to 1909 was marked by a greater increase in the number of banks than any other period of similar length in the history of the United States. The number of national and state banks increased from 7,763 in 1899 to 18,212 in 1909. A very large part

of this increase, both of national and state banks, was of banks with less than \$50,000 capital. From 1899 to 1909, the number of state banks with a capital of less than \$50,000 increased from 2,529 to 8,980. Until 1900 national banks were not incorporated with a smaller capital than \$50,000. On September 1, 1909, there were in operation 2,197 national banks with a smaller capital than \$50,000. Of the total increase of 10,449 in the number of national and state banks from 1899 to 1909, 8,548 were banks of less than \$50,000. The period from 1899 to 1909 was marked, therefore, in the banking history of the United States pre-eminently by the increase in the number of small banks. In this development the national banking system has shared to some extent through the amendments made to the national bank act by the act of March 14, 1900, but a very large part of the increase in the number of small banks was of banks of less than \$25,000 capital.

The following table shows the number, in 1909, of state banks of less than \$25,000 capital classified according to capital:

Capital	Number
\$5,000 or less .....	414
Over \$5,000, less than \$10,000 .....	240
\$10,000, less than \$15,000 .....	3,029
\$15,000, less than \$20,000 .....	1,420
\$20,000, less than \$25,000 .....	775

These banks are by no means evenly distributed among the various states. The following table shows the number of banks of less than \$25,000 capital by groups of states:

New England .....	0
Eastern States .....	36
Southern States .....	1,786
Middle Western .....	1,596
Western States .....	2,255
Pacific States .....	205

It will be noted that such banks are numerous in the Southern, Middle Western, Western, and Pacific states. The entire absence of such banks in the New England states and the small number of them in the Eastern states is partly to be accounted for by the fact that, in some of these states, state banks are not chartered and in others the amount of capital required is large, but the chief



reason is that the economic conditions in these sections do not make such banks profitable. The greatest development of such banks is found in the more sparsely settled agricultural districts.

The growth of large state banks (*i. e.* banks with a capital sufficiently large to enable them to incorporate under the national bank act), while by no means so striking as that of the small state banks, presents, when compared with the growth of the national banks, significant and noteworthy features. In 1877 the number of state banks with a capital of \$50,000 and over was 634, and the number of national banks was 2,080.<sup>4</sup> In 1909 there were in operation 2,610 state banks with a capital of \$50,000 and over and 4,773 national banks with the same amount of capital. The absolute increase in the number of the state banks of this class has been somewhat less than the increase in the number of national banks, but the percentage of increase has been very much greater; moreover, since 1888 the absolute increase in number of the state banks of this class has been practically the same as that of the national banks.

The more rapid growth of the state banks of this class than of the national banks appears to be due chiefly to two advantages:

In the first place, the state banks in practically all of the states have the power to loan on real estate, and, as is well known, the national banks do not possess this power. All banks, however, are not equally desirous of having power to loan on real estate. The banks in the larger cities and towns do not ordinarily care to loan largely, if at all, on real estate, since they can occupy their funds fully in local commercial loans. Also the banks in the more newly settled parts of the country ordinarily prefer not to loan on real estate since the value of land in such sections is not stable. The desire to loan on real estate is greatest, therefore, among the banks located in the smaller places in those sections where the value of agricultural land is most stable.

Secondly, the reserve requirements in the state banking laws in one way or another are far more liberal than the requirements under the national bank act. In a large number of the states, banks either are not required to hold a reserve against savings and time deposits, or the reserve which must be held against such deposits is

<sup>4</sup> Since the passage of the act of March 14, 1900, national banks may be incorporated with a capital of \$25,000. For the relative importance of state and national banks with a capital of \$25,000 and less than \$50,000, see p. 144.

very small. Also in those states which require the same reserve against all deposits the reserve is usually lower than that required by the national bank act. Such provisions are particularly advantageous to those banks which have a considerable amount of time and savings deposits, since the national banks are required to carry the same reserve against demand, time and savings deposits.

On the other hand, there are certain advantages in incorporation under the national bank act. The chief of these are the superior credit of the national bank and the profit to be made on note issue. For many years after the Civil War, the national banks were practically the only incorporated banks of discount and deposit in many of the states. It was well known that these banks were supervised and regulated. State banks, on the contrary, until quite recently in most of the states were under no supervision and were incorporated on practically the same terms as manufacturing, mining and other ordinary corporations. The national banks came, therefore, to have a much higher standing with depositors than the state banks. In recent years, with the development of the state banking systems, the state banks, in many of the states, have come to have almost, if not quite, as high a standing as the national banks. In so far, however, as the business of a bank is with persons or banks in other states, the national bank has an advantage over the state bank, since the residents of one state are ordinarily not acquainted with the provisions of the banking laws of another state, while they know the general character of the provisions of the national bank act.

This advantage is greater for the larger banks than for the small ones, since the smaller banks have relatively less business with persons or banks in other states. The wider credit of the national bank is a particularly important consideration to the promoters of banks in the newly settled states who wish to sell stock to residents of other states, since it is much easier to secure the investment by non-residents in the stock of a national bank than in the stock of a state bank.

The second chief advantage in incorporation under the national bank act is that a certain amount of profit may be obtained from note issue. It was the large profit to be obtained from the issue of notes which in 1865 and the years immediately succeeding induced the great mass of state banks to incorporate under the

national bank act. The increasing price of United States bonds led, however, by 1880 to a great reduction in the profit on bank note circulation and, as a consequence, from 1882 to 1891 the circulation fell off rapidly. A decline in the price of bonds caused a slow increase from 1891 to 1899. Since the passage of the act of March 14, 1900, the profit on note issue has been larger and a great increase in the circulation has resulted. The profit at present, however, is by no means equal to the great profits which caused the conversion of the state into national banks in the period from 1865 to 1870. As estimated by the Comptroller of the Currency the profit on note issues in October, 1909, was 1,334 per cent in excess of six per cent on the investment. A bank with a capital of \$100,000 may secure a maximum profit of \$1,334 from a note issue.

Some of the factors noted above vary in strength according to the size of the place in which the bank is located, according to the economic development of the section of the country, or, finally, according to the class of business which any particular bank wishes to do. But certain general conclusions as to their net result may be drawn.

In the first place, the net advantages of incorporation under the state banking laws are relatively greater for banks of small capital than for those of large capital. The following table shows the number of state and national banks in operation in 1909 with a capital of \$25,000 and over, classified according to capital:

Capitalization.	Number of National Banks.	Number of State Banks,
\$25,000, less than \$50,000 .....	2,197	3,102
\$50,000, less than \$100,000 .....	2,214	1,549
\$100,000 and over .....	2,559	1,061

It will be noted that the number of state banks with a capital of \$25,000, and less than \$50,000, is much larger than the number of national banks with the same capital; but that in the class of banks with a capital of \$50,000, and less than \$100,000, the national banks are the more numerous. The number of national banks with a capital of \$100,000 and over is two and a half times the number of state banks of the same capital. Only 203 of the state banks in operation in 1909 had a capital as large as \$200,000, while 652 of the national banks had a capital of \$250,000 and over.

In the second place, as is shown in the following table, the number of large state banks, i. e., state banks with a capital of \$25,000 and over, in operation in 1909, is much greater relatively to the number of national banks in some sections of the country than in others:

	Number of National Banks with a Capital of \$25,000 and over.	Number of State Banks with a Capital of \$25,000 and over.
New England States .....	484	19
Eastern States .....	1,567	410
Southern States .....	1,406	1,822
Middle Western States .....	1,997	2,154
Western States .....	1,121	616
Pacific States .....	395	681

It will be noted that the number of state banks of this class is larger than the number of national banks in the Southern, Middle Western, and Pacific states, and that the number of state banks of this class is very small in the New England states and much less than the number of national banks in the Eastern and Western states.

*Trust Companies.*—In any consideration of the causes responsible for the great growth of trust companies in recent years, it must be borne in mind that a very large number of the so-called trust companies either entirely lack the power to engage in a trust business or have not cared to use this power. In Massachusetts, for example, a state in which a notable development of trust companies has occurred within the past twenty years, no state banks have been incorporated for many years, and a very large number of the trust companies do only a banking business. In fact, a trust company in Massachusetts, before it may act as a trustee, must be specially authorized by certain state officials. Of the forty-eight trust companies in business in Massachusetts on November 16, 1909, only twenty-six had trust departments. Similarly in Maine and Vermont no state banks have been incorporated in recent years and many of the so-called trust companies are state banks in all except name.

Even in several of those states where both state banks and trust companies are incorporated the preference for organization under the trust company law is not due chiefly or largely to the desire

to carry on a banking and trust business in combination, but to the greater liberality of the trust company law in its regulation of the banking business. Despite the fact that there has been for some years a gradual assimilation of the regulations relating to the two classes of institutions, in many of the states the regulations relating to the banking business of the trust companies are less restrictive than those relating to the state banks. In New York, for example, where the increase of trust companies in number and resources in the past ten years has been much larger than that of either the national or state banks, there is no doubt that the more liberal reserve requirement for the trust companies has been a factor of considerable importance in their growth. It is noteworthy that the great increase in the number of trust companies has occurred in comparatively few states, notably in the New England states, New York, Pennsylvania and Indiana. In some of these states, state banks, as has been noted, are not incorporated, and in others there are significant differences in the regulations to which state banks and trust companies are subjected.

It cannot be doubted, however, that there is for many banking institutions a distinct advantage in combining the trust and the banking business and that this has been a factor of great importance in the growth of trust companies. The growth of the various forms of trust business will be the chief factor in the future increase of these companies since, as has been noted above, in practically all the states there is a growing disposition to assimilate the regulations of the banking business whether carried on by a trust company or a bank.

Since many so-called trust companies are state banks except in name, and since in many of the states the trust companies are to all intents and purposes not a distinctive class of banking institution but merely state banks which may engage also in a trust business, in order to measure fully the growth of state banking, it may be worth while to combine the numbers of the two classes of institutions. Since, however, the trust companies are usually of large capital, it will be sufficient to consider the result obtained by combining the number of state banks and trust companies with a capital of \$100,000 and over.

There were in the United States in 1909, 1,781 state banks and trust companies with a capital of \$100,000 and over, and 2,559

national banks of the same capital. The trust companies and the state banks of this class are more numerous than the national banks only in the Pacific Group. In the Eastern states, however, the disparity in numbers is not great. The smallest number of state banks and trust companies compared with the national banks in this class is found in the New England and Western states. In neither of these groups is the number of state banks and trust companies with a capital of \$100,000, and over more than one-third of the number of national banks of the same class.